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STATE PASS TRANSPORTATION FOR MARAD  
STATE PASS OPIC FOR ZHAN AND MSTUCKART  
STATE PASS TDA FOR EEBONG AND PDAVIS  
STATE PASS EXIM FOR JRICHTER  
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ  
USDOC FOR 3317/ITA/OA/KBURRESS  
USDOC FOR 3130/USFC/OIO/ANESA/DHARRIS  
USDOC FOR USPTO - PAUL SALMON  
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TAGS: [EFIN](#) [ECON](#) [NI](#)  
SUBJECT: Nigeria: First Bank Chief Fears Banks Over Capitalized

REF: A) ABUJA 2240; B) LAGOS 654

SENSITIVE BUT UNCLASSIFIED; BUSINESS PROPRIETARY INFORMATION; HANDLE  
ACCORDINGLY

11. (SBU) Summary: Central Bank insistence that only banks with USD 1 billion in capital will manage Nigeria's foreign reserves may have resulted in some banks being over-capitalized for their current operations and lead to bad loans. The Managing Director (MD) of First Bank, Nigeria's oldest bank, called on the Central Bank of Nigeria (CBN) to adopt a risk-based monitoring system to avoid the prospect of a wave of bad loans that could result from banks managing huge new amounts of capital. First Bank will merge with Ecobank Transnational Incorporated to extend its reach deeper in Africa. End Summary.

CBN Requirement Leads to Over-Capitalization  
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12. (SBU) Jacobs Ajekigbe, Managing Director (MD) of First Bank Nigeria (FBN), told Econoffs that the Central Bank of Nigeria (CBN), by requiring banks to further increase their capital to USD 1 billion as a prerequisite for managing Nigeria's foreign reserves, may have led some banks to over-capitalize. The USD 1 billion requirement for managing foreign exchange reserves is a substantial increase over the mandatory recapitalization to 25 million naira (USD 192 million) required in 2005. The over-capitalized banks, anxious to put their capital to work, may be prone to bad loans, he said. To avoid this problem the CBN should shift gears from its reactionary rule/compliance-based supervision to more proactive risk-based monitoring.

13. (SBU) The MD praised the CBN's recent introduction of a new corporate governance code for banks. The code will help banks to establish strategic objectives, clear lines of responsibility and accountability. The new corporate values deriving from the code will be essential if banks are to properly manage the huge amounts of capital currently at their disposal, he said.

¶4. (SBU) Ajekigbe said First Bank's planned merger with Ecobank Transnational Incorporated (ETI) is still on. He said the deal has been slowed by regulatory requirements arising from ETI's operations in over 13 African countries. The banks have engaged the advisory services of Goldman Sachs and Merrill Lynch to move the merger plans forward more quickly, he said.

#### PO Brings First Bank's Capital to USD 5 Billion

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¶5. (SBU) In May, First Bank's public offering increased the bank's capital to 320 billion naira (USD 2 billion). The public offering, originally planned to raise 100 billion naira, was hugely over subscribed, he said, raising 250 billion naira (USD 1.9 billion). First Bank assets now total more than USD 5 billion. Following the merger with Ecobank, Ajekigbe anticipates the two banks will have more than USD 7 billion in capital.

¶6. (SBU) Recently, First Bank declared 15 billion naira (USD 115 million) as profit for the first half of 2007. Hafiz Bakare, FBN's Head of Corporate Planning and Group Coordination, said this result is attributable to the bank's management changes in retail and corporate banking, to optimal use of electronic banking, to returns from projects funded by the bank and to yields from investments in the bond and money markets (Note: The bank officers did not mention what percentage of profit was attributable to each source. Nigerian banks rely less upon loans than upon investments as a source of profits. End Note).

#### FBN to Invest in Infrastructure

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¶7. (SBU) Ajekigbe said FBN plans to work closely with state

governments to finance major infrastructure and energy projects. The bank was part of the group that funded construction of a new domestic airport terminal in Lagos and major rehabilitation on Lagos' Lekki-Epe expressway. The bank will also participate in financing the proposed Lagos fourth mainland bridge and the coastal road to Port Harcourt. The bank is currently engaged in talks regarding the rehabilitation through a public-private partnership (PPP) initiative of the Lagos-Ibadan expressway. According to Ajekigbe, the bank intends to play a leading role in PPP initiatives in housing and mortgage finance, as well. Private sector involvement had made infrastructure finance attractive to the bank, which has declined to finance wholly government-driven projects.

#### Economic Reforms Have Benefited Banks

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¶8. (SBU) The MD said he believes Nigeria's current economic growth has been enabled by the "smooth" handover of presidential power in May. Continuing reforms in telecommunications, power and aviation have created opportunities for local banks. Local banks, once only agents for the International Finance Corporation (IFC) and foreign banks, are now able to fund big ticket transactions on their own, he said.

¶9. (U) This cable has been coordinated with Embassy Abuja.

Blair